097.3
Z1092
No. 379

X L

~~CONFIDENTIAL~~

~~SECRET~~

OFFICE OF STRATEGIC SERVICES
Research and Analysis Branch

CLASSIFICATION
Changed to
UNCLASSIFIED
by authority of
H. Marcuse, DRB/CSR
By NV
Date: Dec. 6, 1949

R & A No. 379

DEPARTMENT OF STATE
REFERENCE DIVISION
FILE COPY
PLEASE RETURN
REF

MILITARY AND CIVILIAN CONTROLS IN GERMAN WAR ECONOMY

4 December 1942

MILITARY AND CIVILIAN CONTROLS IN GERMAN WAR ECONOMY

I. Reconciliation of Military and Civilian Requirements.

Military and civilian requirements are ordinarily reconciled by common agreement between Funk and Speer. Funk acts not only in the capacity of Minister of Economics but also as Commissioner General for War Economy, a position which gives him supreme command over the civilian sector of German economy. Speer as Minister of Armaments and Munitions is the supreme organ for the military sector of Nazi economy.

Should these chiefs fail to agree on fundamental policy, the issue may be carried to Goering as chairman of the Ministerial Council for the Defense of the Reich and chief of the entire war economy. Goering, however, intervenes only in exceptional cases. This becomes evident by comparing the number of rulings issued by Funk and Speer on the one hand and Goering on the other. Goering, of course, will decide whether locomotives are to be built in preference to tanks. In this case his decision merely reflects Hitler's views which may or may not coincide with those of the Supreme Command of the Armed Forces. Generally speaking, however, Goering confines his orders to the clarification of jurisdictional disputes between rival agencies.

It may be said, therefore, that the final reconciliation between the civilian and military sectors of Nazi economy rests with two civilians. This situation has prevailed since the spring of 1942, when serious structural defects which had become apparent under the impact of the Russian campaign caused a reorganization of German war economy. Prior to that time the Wehrwirtschaftsamt und Ruestungsamt of the Supreme Command of the Armed Forces, headed by General George Thomas, exercised, for all practical purposes, the functions which are

CLASSIFICATION
Changed to
UNCLASSIFIED

~~CONFIDENTIAL~~

now being performed by Speer. Since that time overall planning of German war production has definitely been entrusted to Speer.

II. The Determination of Military Requirements.

By the decree of May 30, 1942, the Wehrwirtschaftsamt and Ruestungsamt, hitherto under the sole authority of the Supreme Command, was divided into two distinct units, each retaining its former name. By a curious compromise General Thomas remains the head of both units. As head of the former, Thomas remains under the authority of the Supreme Command of the Wehrmacht, that is under Field Marshal Keitel. As head of the Ruestungsamt, however, he is subject to the control of Speer.

The Wehrwirtschaftsamt determines the military needs of all the branches of the service - army, navy, and air force. It sets up a balanced program of military requirements and establishes the types of the articles desired. It need scarcely be stated that this body is entirely composed of army officers. It should also be stated that the Wehrwirtschaftsamt includes a large number of officer-engineers, economic officers (Wirtschaftsinspekteure), munitions inspectors (Ruestungsinspekteure), who are also subject to Speer's orders.

The Ruestungsamt has now become an integral part of the Ministry of Armaments and Munitions. The demands which originate in the various branches of the service are first sent to the Wehrwirtschaftsamt which, by setting up a balanced program of production, seeks to eliminate competition between the various arms of the service. From here it is transmitted to the Ruestungsamt where it is considered on the purely economic level and adapted to raw material and labor resources and the productive capacity of German industry. The Ruestungsamt under Speer, therefore, is the central directing agency of German war production. No Branch of the armed forces can assert any demands which have not been sanctioned by this controlling body.

CLASSIFICATION
Changed to
UNCLASSIFIED

CONFIDENTIAL

In the Ministry of Munitions there is a special department which is entrusted with the expansion of armament plants (Ruestungsausbau) with regional offices (Aussenstellen) which carry out the policies of the Ministry in each army corps area (Wehrkreis).

III. Factors Governing the Letting of Contracts.

War production contracts which are let by the Ministry of Munitions and not by the Wehrwirtschaftsamt are governed by the following considerations:

a. Prices. Prices for government orders are no longer cost plus prices but are either (1) uniform, or (2) group, or (3) cartel, or (4) administrative prices.

Cartel and administrative prices require no extended discussion here. If the Wehrmacht requires goods for which cartel prices (cement, coal) or administrative prices (leather, cloth) exist, the government is compelled to pay these prices. Such prices are the exception rather than the rule, because there are neither cartel nor administrative prices for combat material.

Uniform prices are established for one article (or a part of it) and are valid for every producer in the territory of the German Reich. If, owing to the variation in production costs, uniform prices cannot be established, group prices are fixed which take into account these differences. If such group prices are determined for a specific article, the producer may choose which group unit he desires to join.

Uniform and group prices are fixed by a working committee (Arbeitsstab), a kind of liaison committee between the Reich Price Commissioner and the Ministry of Munitions. No industrialist is represented on this committee. Most of the work is done by the Price Commissioner who issues the regulations and the semi-official interpretations.

CLASSIFICATION
Changed to
UNCLASSIFIED

UNCLASSIFIED
Changed to
CLASSIFICATION

CONFIDENTIAL
RESTR

d. Technical conditions of Production. The determination as to who is to produce and how the article is of to be manufactured is in the hands of speer and the industrial organizations proper. These organizations, representing the industry, are the so-called Main Committees (Hauptausschüsse) and Industrial Rings (Industrieringe). These Main Committees and Industrial Rings are represented at the center of Ministry in the Armament Council (Rüstungsrat), composed of five high ranking industrialists, which serves as an advisory body to speer. The Main Committees, composed chiefly of engineers, operate on a long national and local level and may be considered as agencies whose prime function is of rationalize new production. The Industrial Rings are national organizations also composed of engineers, whose function it is to standardize the production of such commodities as are used in a variety of military articles. It, for example, a coal-mesh is used in tanks, trucks, and other armored vehicles, it is then who design the type and construction of the coal-mesh.

If is these Main Committees and Industrial Rings who direct the various of those firms and branch which are to execute them.

VI. Contract letting and subcontracting.

The contract may be placed directly with an industrial firm. In this case the contract is concluded between the Ministry of Munitions and the firm, but only if the Main Committee or the Industrial Ring pronounces the technical equipment of the factory satisfactory. Or, the order may be placed with a Reichsvereinigung, a compulsory national body certes, see up for Iron and Steel, Coal, Chemical Fibers, Hemp, and Textile Finishing.

For the purpose of this discussion only the Reichsvereinigung Iron and Steel is important. This certes distributes the orders among its members as it

~~CONFIDENTIAL~~

own discretion. The cartel is controlled by the Minister of Economics because he can appoint and depose its president, H. Roechling, one of the most important steel manufacturers of the Reich.

Once the contract has been awarded, subcontracting and farming out is left to the prime manufacturer who furnishes both the designs and the raw materials. There are, however, certain cases in which the Ministry of Munitions deals directly with pools of small manufacturers, especially in the case of goods designed for both civilian and military consumption, such as uniforms and boots. The manufacturing pools of artisans and small business men are highly developed.

V. Relation between Central and Regional Agencies.

While the decree of May 30, 1942, established in the Ruestungsamt an authoritative central agency for the control of German war economy, regional administration, until recently, presented the picture of considerable confusion. This confusion was due to the existence of a multiplicity of regional officials and bodies with ill-defined jurisdictions and to the lack of authoritative control within the scope of regional administration. All previous efforts to introduce greater coordination among these regional agencies had failed completely. In the hope of remedying this situation, Goering established by his decree of September 17, 1942, the 42 regional armament commissions or Ruestungskommissionen. The chairmen of these armament commissions are henceforth appointed by and responsible to the Minister of Munitions. By forcing all the organs of regional economic control, those of the state, army, as well as the self-governing agencies of industry, into these commissions Speer hopes effectively to centralize regional authority. The membership of these armament commissions embraces the following major agencies:

1. The munitions inspector (Ruestungsinspekteur) of the Munitions Ministry, the real representative of the interests of war production in the regional area. He is an army engineer and frequently the chairman of the armament commission. There are also the Wehrwirtschaftsinspekteur and the Wehrkreisbeauftragter

CLASSIFICATION
Changed to
UNCLASSIFIED

representing both the Wehrwirtschafstamt and the Ministry of Munitions. The functions of the Ruestungskommando are not known. At all events, both the Supreme Command of the Wehrmacht and the Ministry of Munitions are amply represented.

2. The armament chairman (Ruestungsobmann) representing the Main Committees of experts and the Industrial Rings. This chairman is an industrialist who must also be an engineer or a construction man. He controls the other chairmen of the committees of experts and rings in his district (Bezirksobmaenner).

3. The president of the provincial labor exchange (Landesarbeitsamt), operating under the authority of the Ministry of Labor.

4. The president of the provincial economic office (Landeswirtschaftsamt), operating under the authority of the Minister of Economics.

5. The president of the district economic chamber (Gauwirtschaftskammer) and his economic adviser (Gauwirtschaftsberater).

6. Whenever the need arises the chairman of the armament commission may call in other officials such as the presidents of the regional railway administration, the managers or leaders of the regional organizations of industry proper.

These armament commissions have complete authority over all the five agencies that are represented in them. By appointing the chairmen of these commissions, the Minister of Munitions can impose his will on all the regional agencies involved in the execution of the war production program. Should the orders of the armament commission conflict with policies established by other ministries, the regional office affected by such an order may appeal to the Minister of Munitions, who has the right of decision after consultation with the ministry to which such a regional office belongs. Such an appeal, however, cannot postpone the execution of the order.

One of the interesting features of the decree of September 17, 1942, is the fact that the only army corps areas (Wehrkreise) have been abandoned in favor of the Party Districts or Gaue as the new administrative units. It is, therefore, the regional organization of the Nazi Party that provides the pattern for regional

CLASSIFICATION
Changed to
UNCLASSIFIED

~~CONFIDENTIAL~~

organization. The munitions inspectors, originally apointed for each army corps area, are now appointed for each one of the 42 Party Districts or Gaue. The regional economic offices of the Ministry of Economics were adapted to the Gaue on November 1, 1942, and the provincial labor exchanges are soon to follow. The decree of April 20, 1942 had already abolished the prevailing chamber system in favor of the Gau economic chamber (Gauwirtschaftskammer).

The decree of September 17 leaves no doubt about the sweeping powers of these armament commissions. They can order the provincial economic offices to close down any plant which they do not deem efficient. They can, through the Gau economic chambers, order business firms working on war orders to exchange trade secrets, technical information, machines, and machine tools. They can order the provincial labor exchanges either to grant or deny manpower to particular industrial firms. In this matter the armament commissions have absorbed the functions of the combing-out commissions which have since been dissolved. By the same token, however, the power which the Party Gauleiter possessed over the provincial labor exchange appears also to have been nullified.

VI. Scheduling and Allocation of Raw Material.

No precise information is available on actual scheduling. The method applied, however, may be inferred from the system by which raw materials are allocated. The methods now employed were established in the summer of 1942. At this time the center of gravity was shifted from the Reich offices (Reichsstellen) to the organizations of the industrialists. The new quota system employed in the iron and steel industry may serve as a fair example.

A limited liability company (the Ruestungskontor), organized in the Speer Ministry, establishes a clearing department (a Verrechnungsstelle) which opens an account for each of the agencies that order iron and steel. The firms that use

CLASSIFICATION
Changed to
UNCLASSIFIED

CLASSIFICATION ~~CONFIDENTIAL~~
Changed to
UNCLASSIFIED

iron and steel draw upon their accounts by means of iron checks (Eisenscheine) which are certified by the clearing department. With this transaction the intervention of the government agency ceases. The remaining transactions are exclusively private in character. The owner of an iron check issues on his own responsibility iron-transfer-checks (Eisenuebertragungsscheine) to his subcontractors up to the total amount of the quantities to be supplied. If the subcontractors must purchase iron and steel material or finished goods in smaller quantities to fulfill their order, they in turn acquire iron stamps by means of which they can buy the necessary materials. The iron check and the transfer checks remain in the possession of the producers and need not be surrendered to the clearing department.

Accounts are established on a quarterly basis. Each iron check contains a note indicating the prospective requirements for the ensuing quarter. If an order exceeds the quota for the current quarter, a sufficient quantity of iron and steel is reserved for the entrepreneur to enable him to meet his commitments. Hoarding of steel thus becomes impossible.

What is decisive, of course, is the manner in which the accounts or quotas with the clearing department are set up. This was formerly the duty of the Commissioner General for Iron and Steel, Lieut. Gen. v. Hanneken. Since he was sent to Denmark, his functions have been transferred to the peak cartel, the Reichsvereinigung Iron and Steel. Briefly, therefore, it is the iron and steel monopolies which allocate the quotas, which, in turn, are handled as accounts.

The determination of the production plan or schedule is the business of the Minister of Munitions. It is he who transmits this plan to the Ruestungskontor.(1) As the foregoing discussion indicates, production schedules are ordinarily for three months. The military requirements as fixed by the Wehr-

---

(1) One of the first tasks of the Ruestungskontor was to abolish advance payments to industry for any kind of government order.

CLASSIFICATION
Changed to UNCLASSIFIED
~~CONFIDENTIAL~~

wirtschaftsamt and approved by the Ministry of Munitions constitute the basis of the production plan for three months, which finally determines the amount of raw material to be allocated for this period.

VII. The Allocation of Labor.

The supreme authority for the allocation of labor is the Commissioner General for Labor Supply, Gauleiter Fritz Sauckel. Sauckel's office has been superimposed upon the Ministry of Labor (Department III: wages; V: labor supply); upon the trustees of labor who fix wages and determine labor conditions; and upon the labor exchanges which are the agencies that hire and fire and train and retrain labor. Until the regional armament commissions were set up, Sauckel used the local Gauleiters as instruments for the control of the trustees of labor and the labor exchanges. He has, however, no power to interfere with the drafting for the army, although the Wehrmacht generally accepts the deferment recommendations of the labor exchanges.

Within the scope of civilian labor Sauckel appears to be supreme in Germany and the occupied territories. Yet a careful perusal of the decree of March 14, 1942, appointing Speer as Minister of Armaments and Munitions makes it quite clear that Speer has final authority over the raw materials and the labor required for armament production. It is quite probable, therefore, that Sauckel is bound by Speer's decisions. Obviously, military requirements come first, and Sauckel is there to see that the necessary labor is available. Concretely, this means that the Minister of Munitions informs Sauckel of the production plan for the next three months. Through his local agents Sauckel is in a position to discover whether sufficient labor is available. If not, he must take measures in conjunction with the regional armament commissions which will inform him which plants should be closed and which should obtain a larger supply of labor.

CLASSIFICATION
Changed to
UNCLASSIFIED CONFIDENTIAL

VIII. The Cooperation of Government, Party, Army, and Industry.

The cooperation between the Party and the Government is guaranteed by the fact that leading government officials are also leading Party members: Speer (Munitions), Sauckel (Labor), Funk (Economics), Backe (Agriculture), Reinhard (Finance), and above all Goering. This same system of personal union of Government and Party officials is repeated on the lower levels in the case of the presidents of the provincial economic offices, the trustees of labor, the presidents of the provincial labor exchanges, and finally the presidents and advisers of the economic chambers of the Gaue, who at the same time are also business men.

The Party organization, however, is less concerned with administration than with supplying the leadership, drive, and the manipulation of the masses. It is particularly mass manipulation which is assuming prime significance since the demands made upon the German people have increased cumulatively during the past year. It was because the labor problem had become one of the most acute difficulties of German war economy that Sauckel with his band of Party Gauleiters took over control of the labor supply.

The cooperation between the army, industry and government is assured by the fact that high army officers occupy responsible government positions. During the past year, however, there has been a marked decline in their numbers. Colonel v. Schell, Commissioner General for Motor Vehicles, was compelled to resign. Lt. Gen. H. v. Hanneken has left the Ministry of Economics for a diplomatic post in Denmark. Nonetheless, it should not be forgotten that the most powerful economic agents on the regional level are the Ruestungsinspekteure who are also Wehrwirtschaftsinspekteure, that is to say, they are officer engineers who have received their training in the armed forces though they may now be subject to civilian authority. Broadly speaking, the economic organization of the

CLASSIFICATION Changed to ~~CONFIDENTIAL~~ UNCLASSIFIED

German army has lost its former autonomy and has been subordinated to the Ministry of Munitions. This is the most striking development of the past year.

The self-governing organizations of industry, on the other hand, have acquired the most substantial increment of power since the early days of the Nazi movement. This is largely due to the circumstance that the organization of German business into functional economic groups and regional economic chambers is now thoroughly completed. Every business man now belongs to both units, which are operated on the leadership principle. All the leading directors of German business organizations are appointed by Funk, the Minister of Economics. The smallest workshop in the fabric of German economy is fully integrated into the network of business agencies which can be made to respond instantly to directives issued from above.

There is no overall supreme economic authority in Germany at the present moment. Decisions are reached by agreements between the major power groups which, in the order of importance, are: the Party, Industry, the Armed Forces, and the High Civil Service.

RECEIVED CID